

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF GENERAL)	
TELEPHONE COMPANY OF THE SOUTH)	CASE NO. 9678

O R D E R

IT IS ORDERED that General Telephone Company of the South ("GenTel") shall file an original and 15 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested, herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company, total Kentucky and jurisdictional operations on an independent basis with each specifically identified. The information requested is due no later than November 21, 1986. If the information cannot be provided by this date, a motion for an

extension of time must be submitted stating the reason for the delay and the date by which the information can be furnished. The Commission will give due consideration to such motions.

1. The following items pertain to Item 16 of General's response to the staff's first data request.

a. Are these factors average for the test period or end of period? Did any changes to these factors occur as a result of the merging of Kentucky operations into GenTel? (Refer to page 2 of 52).

b. Please explain the \$122,622 adjustment to the month of June in the annualization adjustment. Justify the use of the 3-month annualization of local revenues. Provide details. (Refer to page 6 of 52).

c. Please provide supporting calculations for the \$1,208,923 adjustment to Miscellaneous revenues. Please separate the amount for IX lease from all other revenues. (Refer to page 11 of 52).

d. Provide supporting documentation and calculations for the adjustments to revenues caused by the change from SPF to gross allocator, the high cost adjustment fund, and the change to Account 645. (Refer to page 14 of 52).

e. Please provide supporting documentation for the \$312,887 adjustment to access revenues which is found on page 8 of 52.

f. Refer to pages 50 of 52 and 51 of 52 for the following:

(1) Provide the amounts for each month of the test period for the accounts used in the NAGS adjustment.

(2) Why has General chosen to annualize the last 3 months of the test period instead of using actual test period data?

2. Provide specific details of footnote 3 on Exhibit No. 5 and how this affects GenTel's intrastate rate base.

3. Is GenTel a flow-through or normalization company with regard to deferred Kentucky income taxes and how will this be affected by recent changes in the tax laws? (Refer to Exhibit 5, footnote 4).

4. Please provide an income statement for GenTel's total operations and a balance sheet for the state of Kentucky.

5. Has GenTel recognized in its capitalization the requirements stipulated for the repurchase of preferred stock as stated in footnote (1) to the financial statements? (Exhibit 5, page 5)? If so, please provide supporting documentation for the adjustment.

6. With regard to Nordman Schedule 4, does the total company capitalization reflect end of period adjustments to capital? If so, please provide a schedule with supporting worksheets showing all adjustments made to end of period capital in arriving at the figures reflected on Nordman Schedule 4.

7. In reference to Exhibit 5, page 8, Note 1, since GTE of Kentucky became a part of GenTel on January 1, 1986, please explain why data pertaining to Kentucky is not available for 1985.

8. Please provide the information in Notice Exhibit 8 for the 12 months preceding the test period and for the test period for both Kentucky combined and Kentucky intrastate operations.

9. Provide data for the allocation of costs of the offices in Lexington and Durham to the respective states. This information should include the specific categories and amounts of all costs allocated to each state.

10. Provide reconciliation between reported revenues and Banzer's billing analysis. Specify whether these have been adjusted for end of period.

11. a. Provide all billings from GTE Corporation (parent company) to GenTel and identify the expense accounts per the USoA charged for each billing.

b. Provide the allocated costs of all services provided by GTE Corporation and GenTel to Kentucky operations on both combined and intrastate basis.

c. Has GenTel or GTE Corporation performed any cost-benefit studies to determine the feasibility of service from GTE Corporation to Kentucky operations only? If yes, please provide these studies. If no, provide any justification for GTE Corporation providing these services, including any evidence of cost savings or benefits to ratepayers of the state of Kentucky.

12. The following items refer to Item 18(a) of GenTel's response to the Staff's first data request:

a. For comparative purposes, provide a total column for the 12 months of the test period and the previous 12 months.

b. Provide a detailed explanation for any expense account that during the test period has increased or decreased by 10 percent or more from the previous 12 months. (Materiality should be considered).

13. Provide a response to Item 42(b) of Staff's first data request.

14. In response to Item 20(a)(8), GenTel replied that the company does not supply confidential tax filings for inclusion in public records. Please provide one copy of GenTel's Federal and State income tax returns for the taxable year ended during the test period. If GenTel wishes this information to remain confidential, the Commission will grant such confidentiality upon GenTel's request and compliance with 807 KAR 5:001, Section 7.

15. Please explain the reasons for the negative cash position as presented on GenTel's balance sheet and Item 9, page 2 of 2. How does GenTel justify its proposed working capital considering its negative current position?

16. Provide the following information pertaining to GenTel's proposed wage adjustment:

a. Amount of adjustment pertaining to end of period.

b. Amounts, type, dates and percentage of wage increases given to each category of employees in the 12 months preceding the test period, during the test period, and anticipated in the 12 months subsequent to the test period. State whether the categories are union, non-union, etc.

17. Nordman Schedule 3 provides Kentucky combined and intrastate net investment.

a. Please provide in the same format the net investment of the total company based on the methodology used to derive Kentucky combined net investment along with comparable data for the remaining states of GenTel.

b. Provide a similar schedule for each jurisdiction using as its parameters the Commission's methodology as used in the most recent case of GenTel.

c. Reconcile any difference between the total company net investment and the total company capitalization as shown on Nordman, Schedule 4.

18. At page 1 of Exhibit 2 of the notice, the last sentence of paragraph 2 identifies several reasons why GenTel has been able to avoid rate relief during the past 3 years. Please quantify the productivity gains and identify any impact these gains have upon the end of period pro forma adjustments. Be specific.

19. Exhibit 3, page 22 of the notice shows an increase of \$1,015,757 in revenues from the proposed late payment charge. Please provide the documentation and calculation of this amount.

20. Has GenTel done a lead/lag study to determine working capital requirements?

21. Has GenTel included in this rate filing any of the expenses associated with the inside wire maintenance plan announced recently?

22. Provide all details pertaining to Nordman Schedule 2 adjustments H & I. Provide the justification for these adjustments and all supporting documentation showing how GenTel arrived at these figures.

23. Provide a calculation of interest synchronization for the test period on an intrastate basis.

24. Provide the calculation of IDC using both the average and end of period levels of eligible CWIP assuming the overall cost rate of 11.95%.

a. Provide the financial statements for the affiliated directory company operating in the state of Kentucky.

b. Provide the rate of return on equity for this affiliated company.

c. Provide financial statements and rate of return on equity for directory operations in the state of Kentucky.

d. Based on the 11.95% rate of return proposed in this case what level of additional revenues would be allocated to Kentucky.

25. GenTel stated that it was unable to respond to Item 19(b) of the staff's first data request. Since the new tax legislation has been enacted into law can GenTel now supply the requested information?

26. Provide the detailed worksheets for the adjustments for deregulation of CPE and inside wire. (Nordman Schedule 2). Identify all methodologies used in these calculations showing in detail these calculations and support for the choice of these methodologies.

27. Provide a complete translation of GenTel's account numbers to the Uniform System of Accounts numbers.

Include a short verbal description or title. Where a possible misunderstanding may occur, provide a more complete description.

28. Identify the account which contains complex wire.

29. Provide a complete description of pricing procedures used in the selling of embedded complex wire. Assuming that actual book costs are not available, provide the method used to estimate the costs. Identify and show derivations of contribution factors, adjustments for age, transaction costs, and other associated factors.

30. Where embedded complex wire was sold in conjunction with the sale of deregulated CPE, describe the procedures used to allocate regulated revenues and expenses. Identify these revenues and expenses for the test year and preceding 12 months.

31. Assuming Commission approval of the depreciation rates agreed upon in the conference call of October 16, 1986, provide pro forma adjustments based on those pending depreciation rates.

32. In the response to the Commission's first information request, Item 16, page 36 of 52, test year depreciation expense was identified as \$38,798,656. Provide reasons for the exclusion of vehicles and other work. (The footnote describing this reads "Except vehicles & other work eg., dep exp on these") Please reconcile this figure with Nordmann's Schedule 1 figure of \$44,000,861 which is identified as "Depreciation - Per Books - Kentucky Combined".

33. To the extent that the response to the above question does not do so, identify test year depreciation and/or

amortization expenses associated with the following accounts: 451, 452, 454, 457, 605, 814, 821, 831, 832, 841 and 842. Since these accounts were omitted from all detailed pro forma adjustments to depreciation expense, is it GenTel's position that no adjustments to test year expense are required for these accounts?

34. In the response to the Commission's first information request, Item 16, pages 51 of 52 and 52 of 52, the abbreviations "NAGS", "NAAGS", "xfer nro", "atl", "btl", "TRANSACTION 20N", "RAC" "DAC", and other were used. Explain what each of these abbreviations mean. In future responses, it is requested that either non-standard abbreviations be avoided or a translation should be provided.

35. Provide an analysis of expense Acct. 605 - "Repairs to Station Equipment" including identification of subaccounts, description of types of activities involved, amounts booked, and other supportive information for the test year. Indicate which subaccounts will be completely deregulated and which will be partially deregulated, and give the basis for these determinations.

36. Provide a list of all central offices in which switching equipment was replaced and booked in the test year. Identify all associated investments and expenses, including modernization of OSP. Include actual cutover dates and estimated CO and OSP maintenance savings to be experienced as a result of the modernization.

37. Provide GenTel's most recent estimate of the total price elasticity of demand for residence and business local exchange service, including summary workpapers, data inputs, and model specifications used to develop the estimate. If any revenue adjustments were based on these elasticity estimates, identify in as complete detail as possible.

38. Provide GenTel's most recent estimate of the total price elasticity of demand for residence and business toll service, including summary workpapers, data inputs, and model specifications used to develop the estimate. If any revenue adjustments were based on these elasticity estimates, identify in as complete detail as possible.

39. If GenTel has done a study of service bypass in Kentucky, provide a copy of the study, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

40. If GenTel has done a study of facility bypass in Kentucky, provide a copy of the study, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

41. Provide the total average monthly residential and business customer bill by present and proposed rate group and class of service for the test period. The information should be disaggregated to the maximum extent possible to show, for example, local access charges, local usage charges, local mileage charges, interstate toll charges, intrastate toll charges, and other categories as appropriate.

42. Provide the total median monthly residential and business customer bill by present and proposed rate group and class of service for the test period. The information should be disaggregated to the maximum extent possible to show, for example, local access charges, local usage charges, local mileage charges, interstate toll charges, intrastate toll charges, and other categories as appropriate.

43. Provide any cost study done by GenTel concerning basic local service, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions.

44. Provide an analysis of any cost savings and expense increases that may occur as a result of restructuring the basic exchange rate schedule.

45. Provide a 7-step basic exchange rate schedule and price-out of basic exchange and related services.

46. Provide a proportional distribution of the number of residence and business access lines in GenTel's 7-step basic exchange rate schedule.

47. Provide a proportional distribution of the number of residence and business access lines in GenTel's proposed 4-step basic exchange rate schedule.

48. Provide a description of GenTel's rationale -- i.e., cost of service, value of service, or other rationale -- in setting the business individual line rate at 250 percent of the residence individual line rate.

49. Provide any cost study done by GenTel concerning local directory assistance, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

50. Provide an analysis of any cost savings and expense increases that may occur as a result of eliminating local directory assistance call allowances.

51. Provide an analysis of average and median monthly residence and business local directory assistance call patterns for the test period in total and by present and proposed rate group.

52. Provide an analysis of local directory assistance revenue assuming the elimination of exemption and 1, 2, 3, 4, and 5 call allowances.

53. Provide any cost study done by GenTel concerning local private line service, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions.

54. Provide any cost study done by GenTel concerning foreign exchange, off premises, or local private line mileage, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions.

55. Provide any cost study done by GenTel concerning service charges, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions.

56. Provide any documents that show how the costs or cost savings associated with any automated testing, maintenance, or inventory systems were included in service charge cost studies.

57. Provide a summary of the results of time estimation studies used in service charge cost studies and supporting documents, including questionnaires or other forms that were used in data collection.

58. Provide any documents that were used to develop the labor rates used in service charge cost studies, including any functional accounting reports and an explanation of data entries to any functional accounting reports.

59. Provide any cost study done by GenTel concerning its proposed late payment charge, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

60. Provide any sensitivity analysis done by GenTel concerning its proposed late payment charge, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

61. Provide an explanation of GenTel's selection of 1 1/2 percent as a late payment charge.

62. Provide an explanation as to what account balances the late penalty charge will be applied -- i.e., local, toll, etc.

63. Provide any cost study done by GenTel concerning its bulk rating of interconnecting facilities plan, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

64. Provide any separations done by GenTel to determine its interLATA revenue requirement, including an executive summary, a complete narrative description of the study methodology and results, and data supporting study conclusions.

65. Provide GenTel's interLATA access service revenues for the test period.

66. Provide GenTel's revenue from interLATA network facility lease agreements for the test period.

67. Provide data on residence and business total local loop inward and outward movement during the test period by present and proposed rate group.

68. Provide data on total average local loop fill factors for the test period by present and proposed rate group.

69. Provide actual test period billing units for each rate element where billing units have been repressed.

70. Provide a referenced list of all billing analysis items that show no billing units for the test period and explain the lack of billing units in each instance.

71. Provide the Merrill Lynch growth rate estimates for earnings and dividends per share for each of the six comparable companies listed in Austin Schedule 5.

72. Provide the Merrill Lynch growth rate estimates for earnings and dividends per share for Cincinnati Bell, Rochester Telephone and Southern New England Telephone.

73. Provide the Merrill Lynch growth rate estimates for earnings and dividends per share for each of the seven regional Bell holding companies.

Done at Frankfort, Kentucky this 14th day of November, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Henson
For The Commission

ATTEST:

Executive Director